Pepco's Shocking Profits

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The first winter storm of 2011 has revealed once again what Montgomery County residents know too well: Pepco is incapable of restoring power outages in a reasonable period of time.

Surprising, then, that Pepco is as profitable as ever. Just last October—despite a year of intense criticism about failing service—Pepco raised its estimated earnings per share for 2010 by up to 38 percent.

The "thundersnow" began on Wednesday afternoon. According to Pepco officials, 127,000 Montgomery residents lost power by the following morning. Forty-eight hours after the storm hit, the Washington Post reported that 64,843 Montgomery residents were still without power—more than the combined total of 42,667 residents without power in all other Washington-area jurisdictions.

As one resident wrote to me bitterly, Montgomery County has become a "laughing stock" in the region. Of course there is nothing amusing about seniors trapped in apartment towers with no lights, heat or elevator service.

Pepco has offered a variety of excuses for its failure to restore power promptly in the past. The company once blamed its performance on trees, telling regulators that the region has the "fourth most-dense" tree canopy in the nation. But the *Washington Post* found no support for that claim in a Dec. 15, 2010 article and exposed equipment failures as the real reason for outage problems.

Pepco has also blamed plowing problems for its inability to access neighborhoods. But Montgomery County's Department of Transportation plowed the vast majority of roads 24 hours after the most recent storm had passed and still more than 100,000 County residents were without power.

The problem is not trees or weather, it is Pepco's management.

In its December investigative article on Pepco, *The Post* found that the company's reliability problems have been steadily growing worse for five years. Its customers have experienced 70 percent more outages than customers of comparable large utilities and their power has been out more than twice as long. By 2009, Pepco had fallen to the bottom quarter of U.S. utilities in customer satisfaction.

Pepco's proposed solution to its problems is its six-point "reliability enhancement plan," in which it intends to spend $51 million annually in Maryland over the next five years, with additional sums for D.C.

Where will it get the money? Ratepayers, of course. Pepco wants to increase rates on its customers to pay for its improvements. What the company is not telling the public is that it does not need a rate hike to improve its infrastructure. According to Pepco's financial disclosure documents filed at the Securities & Exchange Commission (SEC), Pepco's profits have exceeded $200 million every year since 2004.

In October, 2010, Pepco raised its guidance on full-year earnings from 80-95 cents per share to $1.00 to $1.10 per share, and affirmed 2011 guidance at $1.10-1.30. Pepco's outage performance has been declining over this same period.

Pepco's top eight executives, including its retired chairman, collected $12.7 million in compensation in 2009. They have reaped huge gains despite failed service.
Pepco paid out $238 million in dividends last year and could cut that amount to pay for its capital improvement program. But since its board and management collectively own over 750,000 shares of Pepco stock and its executives have been granted over $11 million in stock awards over the last three years, the company would rather stick ratepayers with the tab.

Pepco's failure to ask for extra crews until Wednesday's storm was well underway is yet another sign that it is managed badly. It is galling to think that Pepco's executives rake in the bucks when service declines and will rake in even more when we pay to fix the problems they created.

Pepco must face a financial penalty for providing poor service. The Maryland Public Service Commission (MPSC) should fine Pepco for every kilowatt hour lost by its customers due to outages. This would set an appropriate performance incentive.

The MPSC should also demand service improvements without the ratepayer increase. Let Pepco's executives and investors pay to get Washington area customers back to an acceptable level of services. After all these years of increasing profits despite declining services, the balance sheet should not be tipped in their favor yet again.

As a Bethesda resident wrote to me, "When I moved to Montgomery County, I never imagined that I would struggle to keep my baby warm." I couldn't agree more.

The time for talking about Pepco's problems is over. The time to act is now.

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